



comptel 

Annual Report

computel 
Computing capabilities unequalled in Canada



To our Shareholders:

I am pleased to report on the activities of Computel during its third fiscal year which ended August 31, 1970.

During the year, revenues from the sale of computer time and related charges rose to \$2,908,442 from \$2,168,950 the previous year, bringing gross revenues, including leasing and investment income, to \$3,086,949. Increased costs in the same period are largely attributable to the operation, over a full 12 months, of two new computers and to intensified marketing activity. Depreciation of \$1,005,181 in 1970 as compared with \$544,866 in 1969, continued to be the most significant charge against income; the net loss was \$849,490. Revenue growth should be considered against the potential of the company's three computers; the two UNIVAC 1108s and the IBM 360/65. Present experience indicates that a revenue level of approximately 7 million dollars could be the capacity.

In management's view, it should be possible to use all this capacity, and more, in coming years. The present market place has been determined from careful study of a company market survey, the published financial statements of competitors, consulting reports, and direct sales information. It is believed that the market for computer services in Canada during the company's fiscal year was between 15 and 20 million dollars. Given favourable economic conditions, this market is expected to grow to some 60 million dollars by 1975. Computel expects not only to grow with the market, but to increase its share substantially.

In a year which has been characterized by the entry of many new companies and increased competition, Computel has continued to develop

its reputation in assisting clients to efficiently apply computers in managing their businesses. As a result, the company's client base is broad: of the more than 200 organizations using Computel's services, the six largest accounted for less than 30% of total revenues.

Some measure of client satisfaction is dependent on Computel's unique operation of different hardware types. Computers of different manufacture vary in the manner in which they perform. Thus a program which is developed for one type may not run on another type without costly redevelopment or conversion. Furthermore, a particular program may run faster or be more economical on one computer than another. Computel, with both high performance UNIVAC and IBM computers, provides the only computing service in Canada which offers a saving to clients by providing the appropriate machine for the job.



Several computer manufacturers have recently announced new models. At first glance, their advantage lies in their ability to handle a greater volume of jobs — but not any larger or more complex — than the existing computers. Careful consideration, however, is being given to potential client benefits which may be derived from their use. Rather than a single large computer, Computel has three — all in widespread use. As a result, Computel is in a more flexible position to adjust to improved technologies than its competitors.

Client needs are, of course, much more extensive than simply higher performance computers. Recognizing this, Computel has recently created an Applications Division for the purpose of developing or acquiring computer programs designed to efficiently solve specific customer problems. Although only recently in operation, this Division is already

offering its clients a Generalized Accounting System, support to structural engineers based on the use of AMECO (a computer program far superior to other commonly used programs), and assistance in Econometric Analysis with the Databank/Massager programs developed by the Bank of Canada. The use of programs that are available only through Computel, combined with the advice of skilled specialists, will increase the value and uniqueness of Computel's service.

In 1967, Computel pioneered a new industry in Canada, a fact which is source of considerable pride. The cost of such pioneering is significant, but was adequately anticipated in the early financing of the company. The positive cash flow from operations during the year was cause for encouragement: forecasted increases to working capital from this source should greatly assist future growth.

Management gratefully acknowledges the considered guidance of your able and experienced Board of Directors and the major contribution of our employees, whose integrity and professional excellence maintains our position in the forefront of the industry. Together, we are determined to justify your confidence in Computel in this new and growing industry.

R. T. Horwood,
President.

November 12, 1970



Directors

Frederick B. Brooks-Hill

George R. Cogar

Christopher G. Fleming

Robert C. Heilig

Robert T. Horwood

Ronald T. Lane

Charles E. O'Connor

Robert N. Steiner

Andrew M. Wyszkowski

Officers

Chairman of the Board

George R. Cogar

President & Chief Executive Officer

Robert T. Horwood

Executive Vice-President &
General Manager

Ronald T. Lane

Vice-President, Systems

Andrew M. Wyszkowski

Secretary

Robert A. Skene

Auditors

Clarkson, Gordon & Co.

Registrar & Transfer Agent

Canada Permanent Trust Company

Listing

Toronto Stock Exchange

Offices & Principal Equipment

1200 St. Laurent Blvd., Ottawa	746-4353	IBM360/65 and Executive Offices
222 Laurier Avenue West, Ottawa	746-4353	Univac 1108
250 Bloor Street East, Toronto	929-9011	Univac 1108
Place du Canada, Suite 1210, Montreal	866-3051	Terminal/Marketing



Auditors' Report

To the Shareholders of Computel Systems Ltd.:

We have examined the consolidated balance sheet of Computel Systems Ltd. as at August 31, 1970 and the consolidated statements of income and deficit and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at August 31, 1970 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Ottawa, Canada,
October 4, 1970.

Clarkson Gordon & Co.
Chartered Accountants



Consolidated Balance Sheet — August 31, 1970

	1970	1969
Assets		
Current:		
Cash	\$ 38,470	\$ 24,600
Short term investments (at cost which approximates market)	710,000	1,100,000
Accounts receivable	654,952	615,248
Prepaid expenses	28,665	25,020
	<hr/> 1,432,087	<hr/> 1,764,868
Fixed, at cost:		
Computers and ancillary equipment	9,330,063	8,668,772
Furniture and fixtures	153,392	144,248
Leasehold improvements	233,200	216,175
	<hr/> 9,716,655	<hr/> 9,029,195
Less accumulated depreciation	1,684,930	689,972
	<hr/> 8,031,725	<hr/> 8,339,223
Other, at cost:		
Bond, debenture and share issue expenses (less amortization)	317,994	339,496
Incorporation expense	5,772	5,772
	<hr/> 323,766	<hr/> 345,268
	<hr/> <hr/> \$ 9,787,578	<hr/> <hr/> \$10,449,359

On behalf of the Board:

George R. Cogar Director

Robert T. Horwood Director



computel systems ltd.

and its wholly-owned subsidiary
(Incorporated under the laws of Canada)

STATEMENT 1

	1970	1969
Liabilities		
Current:		
Accounts payable and accrued charges	\$ 348,357	\$ 612,678
Accrued bond and debenture interest	148,345	148,773
Taxes payable	38,037	29,584
Current portion of long-term debt	271,826	
	806,565	791,035
Long-term (note 1):		
9% first mortgage sinking fund bonds	964,000	964,000
6% convertible subordinated debentures	5,000,000	5,000,000
Purchase contract	420,172	
	6,384,172	
Less sinking fund instalment and current portion of purchase contract due within one year	271,826	
	6,112,346	5,964,000
Shareholders' equity		
Share capital (note 2) —		
Authorized:		
1,000,000 common shares without nominal or par value		
Issued:		
588,708 shares	4,253,830	4,229,997
Deficit (statement 2)	(1,385,163)	(535,673)
	2,868,667	3,694,324
	<u>\$ 9,787,578</u>	<u>\$10,449,359</u>



STATEMENT 2

**Consolidated Statement of Income and Deficit
for the year ended August 31, 1970**

	1970	1969
Income:		
Computer time and related charges	\$ 2,908,442	\$ 2,168,950
Leasing contract revenue	106,141	60,705
Investment income	72,366	280,265
	3,086,949	2,509,920
Expenses, including depreciation (note 3):		
Operations costs	2,854,018	2,073,420
Administrative and systems expenses	647,264	446,986
Amortization of pre-operating expenses		38,427
Interest on long term debt	435,157	393,508
	3,936,439	2,952,341
Net loss for the year — (note 7)	849,490	442,421
Deficit, beginning of year	535,673	93,252
Deficit, end of year	\$1,385,163	\$ 535,673

(See accompanying notes to consolidated financial statements)



computel systems ltd.

and its wholly-owned subsidiary

STATEMENT 3

**Consolidated Statement of Source and Application of Funds
for the year ended August 31, 1970**

	1970	1969
Source of funds:		
From operations —		
Loss for the period	\$ (849,490)	\$ (442,421)
Depreciation	1,005,181	544,866
Amortization of bond, debenture and share issue expenses	27,783	24,647
Amortization of pre-operating expenses	183,474	38,427
	420,172	165,519
Long-term purchase contract	23,833	3,239,206
Shares issued	5,000,000	
Debentures issued	627,479	8,404,725
Application of Funds:		
Purchase of fixed assets	697,683	6,746,239
Bond, debenture and share issue expenses	6,281	290,044
Provision for current portion of long-term debt	271,826	
Redemption of bonds	193,000	
	975,790	7,229,283
Increase (decrease) in working capital during the year	\$ (348,311)	\$ 1,175,442



Notes to Consolidated Financial Statements August 31, 1970

1. Long-term debt:

Bonds —

Under the terms of the Trust Deed securing the 9% first mortgage sinking fund bonds, annual sinking fund instalments of \$193,000 are required from January 15, 1971 to January 15, 1975. In addition the Company may, at its option, redeem bonds at any time prior to maturity at prices ranging from 106% of the principal amount if redeemed on or before January 15, 1971, to 100% of the principal amount if redeemed after January 15, 1974.

Debentures —

Under the terms of the Trust Indenture securing the 6% convertible subordinated debentures, the Company is required to retire through the operation of a sinking fund, \$500,000 principal amount of debentures in each of the years 1979 to 1987 inclusive. These debentures are convertible into common shares at a conversion rate of 28 shares

for each \$1,000 principal amount of debentures at any time prior to September 15, 1978. In addition, the Trust Indenture provides that the Company may at its option redeem debentures at any time prior to maturity at prices ranging from 105.4% of the principal amount if redeemed on or before September 14, 1970, to 100% of the principal amount if redeemed after September 14, 1987.

The Company may not pay any cash dividends on its common shares until all of the first mortgage bonds and the convertible subordinated debentures have been retired.

Purchase contract —

During the year the Company purchased additional core memory at a cost of \$456,929. The terms of the contract call for repayment in 60 equal monthly instalments of \$9,550, to February 1975. Interest is at 9.3% per annum.

2. Share capital:

Under the terms of a new employee stock option plan, options have been granted to certain employees of the Company to purchase in the aggregate 20,200 shares at \$10. per share prior to March 16, 1975. These options replace those outstanding at August 31, 1969.

A total of 160,200 shares have been reserved for the conversion of the 6% convertible subordinated debentures and employee stock options.

On August 27, 1970, 7,566 common shares of the capital stock of the Company were issued to employees for cash of \$23,833.

3. Depreciation:

Depreciation of computers and ancillary equipment has been provided on the basis of an eight-year life with provision for a 15% residual or salvage value. Depreciation charged against income in the year ended August 31, 1970 amounted to \$1,005,181 (1969 — \$544,866).

4. Commitments:

The Company occupies leased premises under agreements of from one to three years duration. In addition, the Company leases equipment and has contracted for prime shift maintenance services for its computers. The annual rates for these charges are:

	1970	1969
Premises rentals	\$143,000	\$128,600
Equipment rentals	\$269,000	\$220,000
Maintenance charges	\$257,000	\$283,000

5. Statutory information:

Remuneration paid during the year to directors of the Company as officers and employees amounted to \$87,000 (1969 — \$34,000). No remuneration was paid to directors as such.

6. Loss carry forward:

The Company has written depreciation in the accounts in amounts greater than capital cost allowances claimed for tax purposes. The difference, together with loss carry-forwards is available to reduce taxes payable in the future.

7. Loss per share:

The net loss per share calculated on the weighted average of the number of shares outstanding during the year is \$1.46; (1969 — \$.79).

About the Company

Computel Systems Ltd. is a computing service — a company that offers computing and associated services, as an alternative to the acquisition of in-house computer systems, or a useful addition to such systems.

Computel is Canada's leading computing service, for several reasons. We were the first to implement the remote-computing concept in Canada, and have pursued a vigorous policy of retaining our position as the leading edge in the industry's development.

The biggest single factor which sets Computel apart from all its competitors, and gives Computel clients a unique advantage, is the multi-hardware system. Computel owns two UNIVAC 1108's and an IBM 360/65 — a versatile combination of hardware and software which offers the broadest range of computing capabilities anywhere in Canada.

These facilities are augmented by a highly trained staff of experts from every phase of computing technology, and by a Technical Services group whose experience is matched by their total involvement with our clients' needs and problems.

